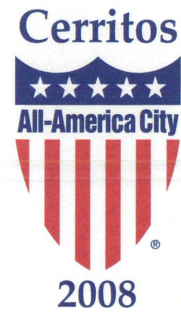




# CITY OF CERRITOS<sup>SM</sup>


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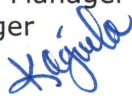


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## AGENDA REPORT

TO: Honorable Mayor and Members of the City Council

FROM: Art Gallucci, City Manager 

INITIATED BY: Torrey Contreras, Senior Assistant City Manager   
Kristin Aguila, Advance Planning Manager 

DATE: April 23, 2020

SUBJECT: **REVIEW AND CONSIDERATION OF A REQUEST BY LRJ AUTOMOTIVE LLC, DBA PENSKE JAGUAR LAND ROVER CERRITOS, FOR THE CITY OF CERRITOS TO DEFER GROUND LEASE RENT PAYMENTS FOR A PERIOD OF THREE (3) MONTHS DUE TO THE ADVERSE FINANCIAL IMPLICATIONS PRESENTED BY THE COVID-19 PANDEMIC.**

## BACKGROUND

On March 22, 2020, LRJ Automotive LLC, dba Penske Jaguar Land Rover Cerritos, reached out to the City of Cerritos to express its concerns regarding the dire economic conditions presented by the COVID-19 crisis and to request the City of Cerritos' assistance in deferring ground lease rent payments to help Penske Jaguar Land Rover Cerritos withstand the difficulties brought about by the COVID-19 pandemic. The City of Cerritos currently leases City-owned property located at 10861 183rd Street, Cerritos, California, 90703, to Penske Jaguar Land Rover Cerritos for the operation of the Jaguar/Land Rover dealership located within the Cerritos Auto Square (see Exhibit 1, Land Use and Location Map). The subject property was acquired by the City of Cerritos in 2005 as part of a property exchange with Valley Christian Schools and at the time was vacant with no buildings or site improvements. Upon acquisition, the City (landlord) entered into a Development Agreement and Ground Lease with Townsend Automotive Group (lessee) for the development of the City-owned property to support future use by a prospective automotive dealership tenant. Upon completion of construction and site improvements, in November 2012, Townsend Automotive Group entered into a Sublease Agreement with LRJ Automotive, LCC dba Penske Jaguar Land Rover Cerritos (tenant) for use of the City-owned property. The original ground lease and related sublease agreement are long-term lease agreements for a period of forty (40) years and will expire in 2045, subject to extension by way of one additional ten (10) year option.

## GROUND LEASE RENT PAYMENTS

Under the existing ground lease, the City of Cerritos currently receives \$23,367 per month from Penske Jaguar Land Rover Cerritos for use of the subject property for its Jaguar/Land Rover dealership. In total, the City receives \$280,404 in annual ground lease revenue for the City's lease of the subject property, which is adjusted every five (5)

years based on the percentage increase in CPI for the prior year, provided that the minimum adjustment be no less than 2% and the maximum adjustment be no greater than 8% per year. The next rent adjustment is scheduled for December 2020. It should be noted that to date, Penske Jaguar Land Rover Cerritos has remitted all payments to the City of Cerritos on-time, and no late fees have been assessed as such.

### **CURRENT DEALERSHIP OPERATIONS/VEHICLE SALES**

In light of the COVID-19 pandemic, the automotive industry has seen significant financial implications affecting automotive dealerships throughout the United States. Specifically, since the outbreak of COVID-19, and the declarations of emergency at the federal, state, and local levels, vehicle inventory production and availability have significantly declined, vehicle residual values are decreasing, and vehicle sales at auto dealerships have been significantly affected.

While the Cerritos Jaguar/Land Rover dealership remains open for vehicle service and parts, the City of Cerritos has been informed that the Jaguar/Land Rover dealership staff has been reduced by approximately thirty-five percent (35%). In addition, the dealership's Parts/Services Department is operating at reduced business days/hours. Prior to COVID-19, the Parts/Services Department operated six (6) days a week (Monday – Saturday), and now is operating five (5) days a week (Monday – Friday) with reduced hours. Further, the Sales Department is now operating by phone and/or online only for vehicle sales. Furthermore, while the Cerritos Jaguar/Land Rover dealership typically sells an average of twenty (20) new and pre-owned vehicles each week, since the State of California's issuance of the "Stay-at-Home" Executive Order on March 19, 2020, new and pre-owned vehicle sales are being significantly effected.

Please note that LRJ Automotive, LLC dba Penske Jaguar Land Rover Cerritos is also currently completing an extensive interior and exterior remodel of the Jaguar/Land Rover dealership building and City-owned property, which includes building upgrades and landscape refurbishment. While these improvements have been substantially completed, the project is still continuing regardless of the financial constraints of doing so during the COVID-19 pandemic.

### **PROPOSED RENT DEFERRAL TERMS**

Upon receipt of the Penske Jaguar Land Rover Cerritos' request for assistance, City staff reviewed the existing ground lease to assess the potential financial implications of providing a deferral of existing ground lease rent. As a result, and in light of the dire conditions created by the COVID-19 pandemic to the automotive industry, the following summarizes the proposed rent deferral terms, as negotiated between the City of Cerritos and Penske Jaguar Land Rover Cerritos:

1. **Rent Deferral Term:** A period not to exceed three (3) consecutive months – July 1, 2020 through September 30, 2020
2. **Total Rent Deferred:** \$70,101.00 (current rent: \$23,367.00 monthly)
3. **Payback Terms:**
  - Payback to begin six (6) months after the deferral end date (April 1, 2021)

- Payback shall be within a period of twelve (12) months and/or no later than April 1, 2022 interest free
- Payments can be made monthly along with regularly scheduled ground rent payments, in one lump-sum, or a combination of both
- Penalty for non-payment: If full payment is not received by April 1, 2022, payment shall be required with the addition of 15% interest on the outstanding balance.

The proposed rent deferral terms were devised due to the complexities of the existing ground lease and to ensure that the City stands to receive full payment of the deferred ground lease rent at the end of the respective twelve (12) month payback period. It should be noted that except for the deferred ground lease rent payments of July through September 2020, Penske Jaguar Land Rover Cerritos is required to pay ground lease rent due to the City up until July 2020 and beginning again on October 1, 2020 in accordance with the terms of the applicable lease agreements.

In addition, Penske Jaguar Land Rover Cerritos has reviewed the proposed rent deferral terms and has expressed its appreciation of the City's consideration of providing such assistance (see Exhibit 2, Penske Jaguar Land Rover Cerritos Approval Letter – April 13, 2020). In order to facilitate the deferral of rent for a period of three (3) months, pursuant to the proposed terms, the City Attorney has prepared the attached Rent Deferral Agreement for execution by the City of Cerritos and LRJ Automotive LLC, dba Penske Jaguar Land Rover Cerritos as tenant, subject to City Council authorization (see Exhibit 3, Rent Deferral Agreement).

## **CONCLUSION**

As previously mentioned, the COVID-19 pandemic has had serious financial impacts to the automotive industry, including the Cerritos Jaguar/Land Rover dealership. Over the course of the past few weeks, Penske Jaguar Land Rover Cerritos has experienced a significant decline in new and pre-owned vehicle sales, has had to reduce its staff by thirty-five percent (35%), and has had to reduce operating days/hours for both the Parts/Service and Sales Departments. The Cerritos Auto Square is one of the City's largest revenue generating businesses, and in light of the fact that as a tenant under the existing ground lease, Penske Jaguar Land Rover Cerritos has remitted ground lease rent payments to the City on-time, Penske Jaguar Land Rover Cerritos' request for rent deferral warrants special consideration by the City of Cerritos. As such, it is recommended that the City Council authorize the City to provide a three (3) month rent deferral to Penske Jaguar Land Rover Cerritos by way of a Rent Deferral Agreement, pursuant to the proposed rent deferral terms contained herein.

## **RECOMMENDATION**

The following is recommended to the City Council:

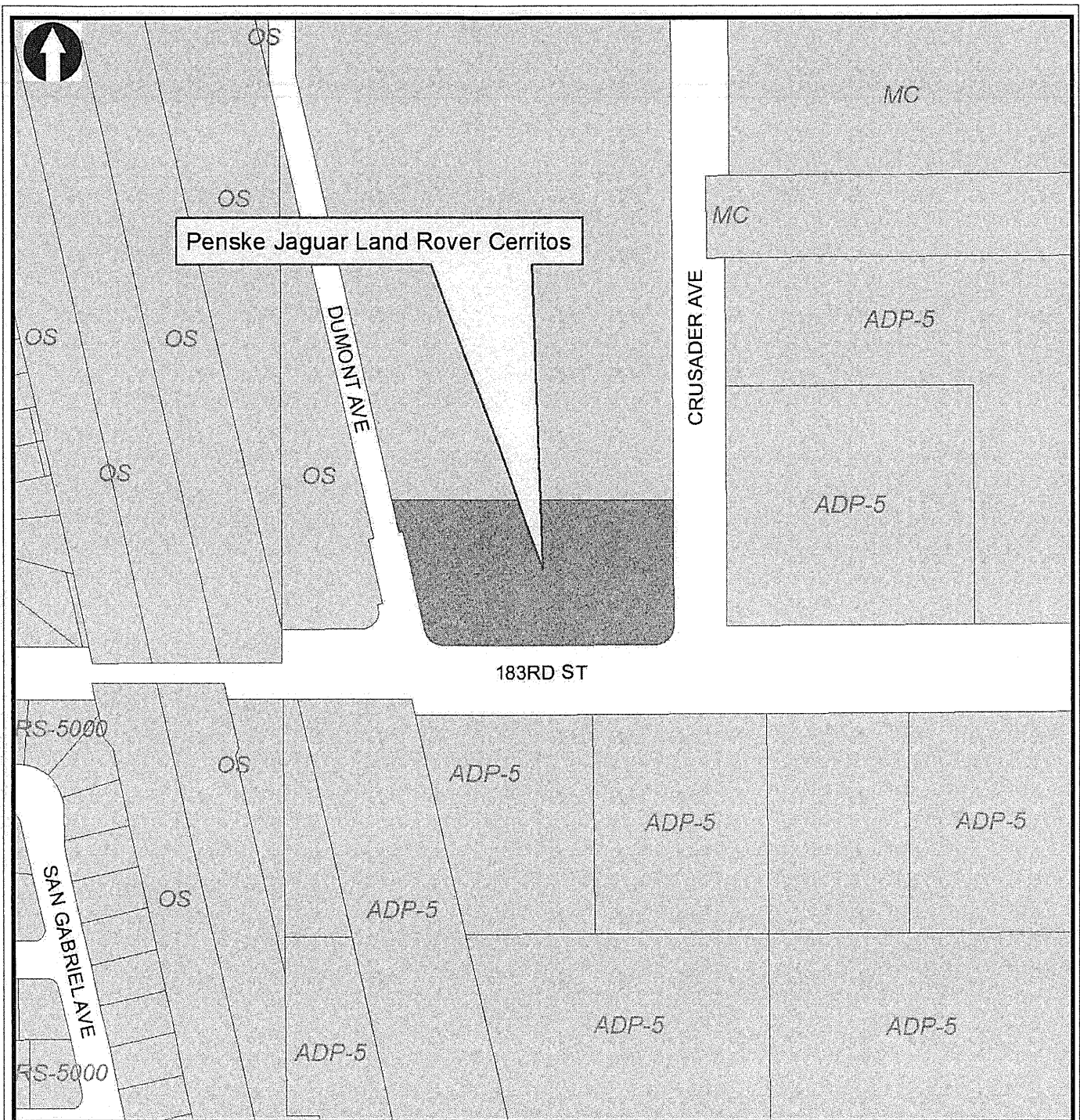
1. Review and discuss the information provided; and
2. Authorize the City Manager, or his designee, to execute a Rent Deferral Agreement between the City of Cerritos and LRJ Automotive LLC, dba Penske Jaguar Land Rover Cerritos, and any related documentation to defer ground lease

rent pursuant to the rent deferral terms described herein, in such form approved by the City Manager and the City Attorney.

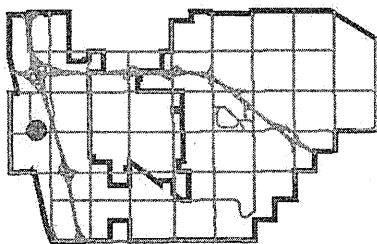
#### Exhibits

1. Land Use and Location Map
2. Penske Jaguar Land Rover Cerritos Approval Letter – April 13, 2020
3. Rent Deferral Agreement





Disclaimer: The City of Cerritos has provided this map to give a visual display of GIS data compiled from numerous sources. To ensure absolute accuracy, please consult with City Staff for updated information.



**EXHIBIT 1**  
Land Use and Location Map  
Penske Jaguar Land Rover Cerritos





April 13, 2020

Art Gallucci  
City Manager  
City of Cerritos City Hall  
18125 Bloomfield Ave.  
Cerritos, CA 90703

Roger S. Penske, Jr.  
LRJ Automotive, LLC  
9136 E Firestone Blvd.  
Downey, CA 90241  
[penske@socalpenske.com](mailto:penske@socalpenske.com)  
(626) 859-1241

Re: ***Penske Jaguar Land Rover Cerritos – Rent Deferral Approval Letter***

Dear Mr. Gallucci:


First and foremost, thank you for your consideration of my request on behalf of LRJ Automotive, LLC dba Penske Jaguar Land Rover Cerritos ("JLRC"), to temporarily defer the dealership's ground lease rent. This letter confirms JLRC's approval of the proposed rent deferral terms outlined the Agenda Report of April 23, 2020 and as set forth in the proposed Rent Deferral Agreement.

The severity of the COVID-19 pandemic has significantly impacted our dealership operations to a degree we could never have predicted. A temporary deferral of rent helps us align our facility costs with current market conditions.

Penske Jaguar Land Rover is a premier luxury automotive retailer and a quality to tenant with impeccable rent payment and property maintenance records. We are committed to emerging from this challenging period intact with the support of the City of Cerritos, as a partner.

By agreeing to this proposal, the City of Cerritos will greatly assist in ensuring the continued success of our operations. We sincerely appreciate the significance of the commitment the City of Cerritos will be making. We also thank Mayor Naresh Solanki and the Members of the City Council in advance for their consideration of this request.

Sincerely,



Roger S. Penske, Jr.

cc: Kristin Aguila  
Torrey Contreras

## RENT DEFERRAL AGREEMENT

### (Jaguar/Land Rover Cerritos)

THIS RENT DEFERRAL AGREEMENT (“**Agreement**”) is entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2020 between LRJ Automotive, LLC dba Penske Jaguar Land Rover Cerritos (“**Tenant**”) and the CITY OF CERRITOS, a municipal corporation (“**City**”). City and Tenant are hereinafter collectively referred to as the “Parties” and individually as a “Party.”

### RECITALS

A. City is the owner of that real property located at 10861 183rd Street, Cerritos, California 90703 (“**Property**”).

B. On December 15, 2005, Townsend Automotive Group, LLC, a California limited liability company, and City entered into a ground lease for the Property, as amended by the First Amendment (10/26/06) and Second Amendment (03/01/07) (collectively, “**Lease**”). Subsequent to the execution of the original Lease, Townsend Automotive Group, LLC sub-leased the Property to Tenant, who currently occupies the Property and is responsible for payment of rent to City under the terms of the Lease.

C. On March 4, 2020, the State of California and Los Angeles County both declared a state of emergency resulting from the spread of COVID-19, and on March 19, 2020 the Cerritos City Manager declared a local emergency in the City due to COVID-19, which was confirmed by the Cerritos City Council via resolution on March 26, 2020.

D. In light of the State Governor’s Executive Order N-33-20 to stay at home, the Los Angeles County Public Health Department’s Safer at Home Order to close all non-essential businesses, and the ongoing COVID-19 emergency, Tenant and City have agreed to temporarily defer payment of rent due under the Lease.

NOW, THEREFORE, in consideration of the mutual promises contained herein, and other good and valuable consideration, the receipt of which is hereby acknowledged by each of the parties hereto, the Parties hereby agree as follows:

### AGREEMENT

1. **Rent Deferral Term.** Payment of rent due under the Lease within the three (3) month period of July 1, 2020 through September 30, 2020 shall be deferred as provided in this Agreement. All other rent due under the Lease shall be paid in accordance with the terms of the Lease.

2. **Total Rent Deferred.** Total rent deferred under this Agreement shall not exceed the equivalent of three months’ rent due under the Lease, or a maximum of \$70,101.00 (\$23,367.00 per month x 3 months) (“**Deferred Rent**”).

**3. Payment of Deferred Rent.**

**3.1. Payment Period.** Beginning on April 1, 2021, Tenant shall have twelve (12) months to pay all of the Deferred Rent, as provided in Section 3.2 below. Payment of the entire balance of the Deferred Rent must be received by City on or before April 1, 2022. City will not charge interest on Deferred Rent, except as set forth in paragraph 4, below.

**3.2. Manner of Payment.** Payment of Deferred Rent under this Agreement may be made in one of the following ways:

- a. Payment of Deferred Rent may be made in twelve or fewer monthly installments, paid concurrently with regularly scheduled payments of rent due under the terms of the Lease, over the course of the twelve (12) month period provided in Section 3.1 above; or
- b. Payment of Deferred Rent may be made in a single, lump-sum payment at any time before April 1, 2022.

**4. Failure to Pay.** In the event Tenant fails to remit full payment of the Deferred Rent before April 1, 2022, City will have the right, as of April 2, 2022, to demand immediate payment of the outstanding balance of Deferred Rent, along with interest accruing on the outstanding balance at the rate of fifteen percent (15%) per annum commencing on April 2, 2021 until paid in full.

**5. No Release.** This Agreement does not release Tenant from any of its obligations under the Lease not explicitly contemplated herein and shall not be construed as a waiver of any of Tenant's obligations under the Lease, nor of City's rights thereunder. Except as provided in this Agreement, all the terms and conditions of the Lease shall remain in full force and effect.

**6. Entire Agreement.** This Agreement constitutes the entire understanding and agreement of the Parties as of the date set forth in the opening paragraph of this Agreement.

IN WITNESS WHEREOF, this Agreement has been executed as of the date set forth in the opening paragraph of this Agreement.

CITY OF CERRITOS

"TENANT":

LRJ AUTOMOTIVE, LLC dba PENSKE  
JAGUAR LAND ROVER CERRITOS

By: \_\_\_\_\_

Name: Art Gallucci

Title: City Manager

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_